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Message Text

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R 230018Z JAN 75
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AMEMBASSY DOHA
AMEMBASSY KUWAIT
AMEMBASSY MANAMA

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E.O.11652: N/A
TAGS: BEXP, SA
SUBJECT: SAUDI DESALINATION PROJECTS
REF: JIDDA 6280

1. SUMMARY--SEVERAL INTERAGENCY MEETINGS HELD RECENTLY TO DISCUSS RECOMMENDATIONS REFTEL AND CONSIDER USG RESPONSE. THERE IS AGREEMENT HERE ON DESIRABILITY OF CONCERTED EFFORT TO INVOLVE US COMPANIES AND ASSURE MAJOR US ROLE IN SAUDI DESAL ACTIVITIES. WE ARE PREPARED APPROACH US INDUSTRY AT AS HIGH AS USG LEVEL AS SEEMS NECESSARY TO URGE PARTICIPATION. COMMERCE HAS BEEN DESIGNATED AS LEAD AGENCY.

2. WASHINGTON AGENCIES HAVE FOUND CONSIDERABLE INTEREST DOES EXIST AMONG US FIRMS IN DESAL POSSIBILITIES IN SAUDI ARABIA. HAVE ALSO LEARNED THAT TOO LITTLE FACTUAL DATA
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AVAILABLE TO US INDUSTRY ON REQUIREMENTS, PLANS, AND

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SCHEDULES, AS WELL AS FOREIGN COMPETITOR ACTIVITIES IN FIELD FOR IT TO MAKE MANAGEMENT DECISION TO COMMIT RESOURCES IN PURSUIT OF PROGRAM. WOULD LIKE POINT OUT THAT FIELD NOT LIMITED TO FIRMS MENTIONED REFTEL. IN FACT, THERE NO SINGLE US ORGANIZATION WITH COMPLETE IN-HOUSE CAPABILITY; PROJECTS COULD BRING INTO PICTURE NUMBER OF ARCHITECTURAL, ENGINEERING, SCIENTIFIC, POWER PLANT FIRMS WHIC COULD COMBINE FOR VARIOUS FORMS OF CONSORTIUM-STYLE APPROACH TO

DELIVER TOTAL CAPABILITY. EXAMPLES ARE (IN ADDITION WESTINGHOUSE AND ENVIROGENICS) FLUOR CORPORATION

BURNS AND ROE, CATALYTIC CONSTRUCTION CO., BECHTEL, RALPH M. PARSONS, KAISER, ROCKWELL INTERNATIONAL, J.B. GREINER, GILBERT ASSOCIATES, ETC. BANKING COMMUNITY (CHASE MANHATTAN) ALSO LOOKING INTO FEASIBILITY OF PUTTING TEAM TOGETHER.

3. WASHINGTON AGENCIES SUGGEST THAT AS INITIAL STEP OF CAMPAIGN, GROUP OF INDUSTRY EXECUTIVES BE ASSEMBLED FOR FACT FINDING MISSION TO SAUDI ARABIA POSSIBLY IN MARCH 1975 TO FILL INFORMATIONAL NEEDS NOTED PARA 1. MISSION WOULD BE HEADED BY USG OFFICIAL. INFORMATION DEVELOPED BY MISSION WOULD BE USED FOR PRESENTATIONS TO SENIOR CORPORATE MANAGEMENTS. WASHINGTON FORESEES NO PARTICULAR PROBLEM ASSEMBLING REPRESENTATIVE GROUP INDUSTRY EXECS FOR SUCH FACT FINDING MISSION; IN FACT; WESTINGHOUSE, ROCKWELL, AND KAISER HAVE ALREADY RESPONDED FAVORABLS TO INFORMAL PRELIMINARY APPROACH THIS REGARD BY COMMERCE. IF EMBASSY CONCURS, WE PREPARED PROCEED IMMEDIATELY WITH THIS STEP.

4. HOPEFULLY, THE FACT FINDING MISSION COULD LEAD TO US FIRMS COMBINING INTO ONE OR MORE CONSORTIA WITH CAPABILITY OFFER PACKAGE PROPOSALS FOR SUBSTANTIAL PORTION OF TOTAL SAUDI DESAL/POWER REQUIREMENTS. FROM KNOWLEDGE OF INDUSTRY ATTITUDES, HOWEVER, WASHINGTON AGENCIES CONCERNED THAT MULTI-BILLION DOLLAR SCOPE OF SAUDI REQUIREMENTS WOULD NOT ALONE BE SUFFICIENT TO INDUCE THIS TYPE OF CONCERTED US INDUSTRY INVOLVEMENT GIVEN EXISTING SAUDI BUSINESS CLIMATE FOR MAJOR CONTRACTORS (SEE PARA 5 BELOW), UNCLASSIFIED

AND THAT SOME SPECIAL MEASURES MAY BE NEEDED. ACCORDINGLY, WE REQUEST EMBASSY ASSESSMENT OF CONSIDERATIONS STATED BELOW AND ITS REACTION TO SUGGESTED STRATEGY FOR USING UMBRELLA OF JOINT COMMISSION TO HELP CREATE BETTER COMPETITIVE ENVIRONMENT FOR US FIRM'S INVOLVEMENT AND SECURE MAJOR US ROLE IN SAUDI DESAL/POWER DEVELOPMENT. WISH TO EMPHASIZE, HOWEVER, THAT DECISION TO PROCEED WITH INITIAL STEP OF FACT-FINDING MISSION IS NOT CONTINGENT ON

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REACTION TO STRATEGY SUGGESTED BELOW.

5. AS EMBASSY UNDOUBTEDLY AWARE, POTENTIAL US SUPPLIERS OF LARGE CAPACITY MSF UNITES FEEL THAT COST DIFFERENTIALS AND FACTOR OF PROXIMITY TO MARKET PUT THEM AT TOO GREAT A DISADVANTAGE IN INTERNATIONAL COMPETITION. THIS ACCOUNTS LARGELY FOR EARLIER WESTINGHOUSE DECISION GET OUT OF DESAL BUSINESS AND FOR LACK OF INTEREST BY ENVIROGENICS IN COMPETING ON MSF PLANTS IN AREA. DURING SEPTEMBER MEETINGS OF WORKING GROUP ON INDUSTRIALIZATION, PRESIDENT OF CHEMICO (PARENT COMPANY OF ENVIROGENICS) CONFIRMED TO COMMERCE OFFICER THAT COMPANY SAW NO ADVANTAGE IN ENGAGING IN INTERNATIONAL COMPETITION FOR MSF PLANTS. IN THESE

CIRCUMSTANCES, WE THINK THERE IS LITTLE CHARGE THAT US FIRMS WILL UNDERTAKE TO COMBINE CAPABILITIES AND UNDERGO EXPENSE OF PREPARING PROPOSALS UNDER USUAL SAUDI PRACTICES OF INTERNATIONAL TENDERS AND LOW BID AWARDS, PARTICULARLY IF TENDERED ON PROJECT-BY-PROJECT BASIS. FIRMS ALSO AWARE OF AND CONCERNED WITH POTENTIALLY ADVERSE OPERATING CONDITIONS IN SAUDI ARABIA WHICH APPEAR TO BE CONSTRAINT GENERALLY TO GREATER PARTICIPATION BY US CONTRACTORS (E.G., CUSTOMS DELAYS, ADMINISTRATIVE BOTTLENECKS, LACK OF RECOURSE IF SAG NOT RESPONSIVE TO PROBLEMS AND CLAIMS). AS EXAMPLE, COMPANIES ARE MINDFUL OF EARLIER AQUACHEM EXPERIENCE IN SAUDI ARABIA WHEN PROFITS CONSUMED BY INTEREST CHARGES DURING LONG DOWN-TIME PERIOD CAUSED BY SAUDI FAILURE
TO DELIVER GAS FOR TESTING OPERATIONS WHICH
WERE REQUISITE TO TURN-OVER OF PROJECT.
6. SUGGESTED STRATEGY THUS WOULD BE TO SEEK CONDITIONS PERMITTING US FIRMS TO NEGOTIATE PACKAGE PROPOSALS WITH SAG. SINCE DESALINAZATION IS AREA IN WHICH SAG HAS ASKED
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FOR US ASSISTANCE UNDER JOINT COMMISSION, WE WONDER IF IT MIGHT NOT BE POSSIBLE TO INDUCE SAG, AS PART OF COOPERATIVE EFFORT, TO DESIGNATE THIS SECTOR, OR MAJOR PART OF IT, AS AREA TO BE DEVELOPED WITH US FIRMS, TECHNOLOGY AND EQUIPMENT AND REMOVED FROM INTERNATIONAL TENDERING PROCEDURES. WE RECOGNIZE THAT THIS WOULD BE SIGNIFICANT DEPARTURE FOR SAG AND MIGHT RAISE COST SOMEWHAT. THEY SHOULD BE AWARE FROM EXPERIENCE, HOWEVER, THAT LOW BID AWARED DOES NOT ASSURE BEST OR EVEN LOWEST COST FACILITY OVER LONG TERM. SUBSTANTIAL BENEFITS TO SAUDIS FROM SUCH ARRANGEMENT COULD BE POINTED OUR: (A) SUPERIOR US TECHNOLOGY AND EQUIPMENT FROM HIGHLY CAPABLE US FIRMS; (B) MORE ORDERLY PROJECT SCHEDULING THAN UNDER CUMBERSOME INTERNATIONAL TENDERING PROCEDURE; AND (C) GREATER

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ASSURANCE OF MEETING DESIRED COMPLETION SCHEDULES. MORE-
OVER, IT POSSIBLE THAT US CONSORTIA APPROACHES MIGHT WELL
INCLUDE UNDERTAKINGS OF TYPE BROACHED BY WESTINGHOUSE FOR
PRODUCING CERTAIN COMPONENTS IN SAUDI ARABIA. FURTHER, IT
MIGHT BE POSSIBLE TO INTRODUCE ELEMENT OF USG INVOLVEMENT
FOR PROPOSAL REVIEW AND HELP IN ASSURING REASONABLE TERMS.
INTERIOR'S OFFICE OF WATER RESEARCH AND TECHNOLOGY (OWRT)
WOULD CONSIDER SERVING AS CONSULTANT TO SAG ON REIMBUR-
SABLE BASIS FOR REVIEW OF TECHNICAL COMPETENCE AND FAIR-
NESS OF PROPOSALS. OWRT HAS PERFORMED SUCH FUNCTION IN
PAST ON BOTH US AND FOREIGN PROJECTS, AND CONDUCTED
NEGOTIATIONS WITH FIRMS WHICH HAVE RESULTED IN BID REDUC-
TIONS. ARRANGEMENT OF THIS SORT WOULD BE OF MUTUAL BENE-
FIT TO SAG AND US AND COULD PROVE A HIGHLY MEANINGFUL
EXPRESSION OF ADVANTAGES OF COOPERATIVE EFFORT UNDER JOINT
COMMISSION.

7. WOULD APPRECIATE EMBASSY ASSESSMENT OF FEASIBILITY
OF PROPOSING THIS SUGGESTED STRATEGY TO THE SAG.

8. FOR INFO ADDRESSEE: US INDUSTRY INTEREST IN GEARING UP
FOR MAJOR DESAL EFFORT WOULD EXTEND BEYOND SAUDI ARABIA TO
REQUIREMENTS OTHER ARABIAN PENINSULA COUNTRIES. PROPOSED
FACT-FINDING MISSION THUS IS PERCEIVED AS VISITING NUMBER
OF COUNTRIES IN ADDITION SAUDI ARABIA AS POSSIBLE BASIS
FOR US INDUSTRY PUSH THROUGHOUT AREA. WOULD WELCOME POSTS
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REACTIONS TO FACT-FINDING MISSION AND PROPOSED DATES AS AID
TO PLANNING FOR MISSION. KISSINGER

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